

Message Text

UNCLASSIFIED

PAGE 01 TOKYO 02255 01 OF 02 170646Z

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 PRS-01 /111 W
-----170658Z 073759 /12

P R 170610Z FEB 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 5532

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 2255

E.O. 11652: N/A

TAGS: EFIN, A

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- FEB 10-16

1. SUMMARY: YEN FLUCTUATES SHARPLY IN TOKYO FOREX MARKET. SEASONALLY ADJUSTED JAN TRADE SURPLUS LARGE. MORINAGA SPEAKS MORE POSITIVELY ABOUT DISCOUNT RATE CUT. REAL GROWTH IN FOURTH QUARTER SEEN AS SLOW BUT POSITIVE. WHOLESALE PRICES DIP IN JAN. LABOR MARKET CONDITIONS IMPROVE IN DEC AS UNEMPLOYMENT DROPS. SOME LDP LEADERS CALL FOR EXPLORATION OF BUDGET COM-PROMISES WITH OPPOSITION. MOF STUDIES EUROBOND ISSUES AS ANOTHER STEP IN INTERNATIONALIZATION OF YEN. END SUMMARY.

2. YEN APPRECIATED SHARPLY IN HEAVY TRADING DURING PART OF PAST WEEK BEFORE REVERSING COURSE TUESDAY DURING DAY AND WED (FEB 15-16). COMING ON TOP OF EARLIER UPWARD UNCLASSIFIED

UNCLASSIFIED

PAGE 02 TOKYO 02255 01 OF 02 170646Z

PRESSURES ON YEN, COMMENTS ATTRIBUTED TO PROFESSOR LAWRENCE KLEIN THAT A 10 PERCENT APPRECIATION OF THE YEN AND THE DM WOULD AID WORLD RECOVERY, FED SUBSEQUENTLY BY OTHER FACTORS, LED TO SURGE OF YEN PURCHASES. AT END OF REPORTING PERIOD (WED, FEB 16), MARKETS SHOWED SIGNS OF CALMING, WITH WED SEEING YEN CLOSING AT 284.50 TO DOLLAR (SO-CALLED CENTRAL RATE WAS 284.70), ALTHOUGH WEDNESDAY'S VOLUME (SPOT) WAS

STILL A HEAVY \$242 MIL.

3. JAPAN'S SEASONALLY ADJUSTED (B/P BASIS) TRADE SURPLUS, ON STRONG RISE IN EXPORTS, APPEARS TO HAVE TOPPED \$1 BIL FIGURE IN JAN. ALTHOUGH BALANCE OF PAYMENTS DATA ARE NOT YET AVAILABLE, CUSTOMS TRADE FIGURES SHOW EXPORTS (F.O.B.), SEASONALLY ADJUSTED, ROSE 11.4 PERCENT FROM PRIOR MONTH, TO REACH \$6.6 BIL IN JAN. CUSTOMS IMPORTS (C.I.F.) ROSE 5.8 PERCENT TO REACH \$6.1 BIL MARK. OUR ROUGH ADJUSTMENT OF THESE CUSTOMS BASIS FIGURES TO B/P BASIS SUGGESTS TRADE SURPLUS OF NEARLY \$1.2 BIL IN JAN, AS COMPARED WITH MONTHLY AVERAGE OF \$0.7 BIL IN 1976 SECOND HALF. EXPORT RISE SAID TO BE LED BY UPSWING IN SHIP EXPORTS AND CONTINUING STRENGTH JOT AUTOS.

'4. BOJ GOV MORINAGA, IN APPEARANCE BEFORE DIET THIS TUESDAY, DISPLAYED SOMEWHAT MORE FLEXIBLE ATTITUDE TOWARD POSSIBILITY OF REDUCTION IN DISCOUNT RATE, ALTHOUGH STILL MAINTAINING A DISCOUNT RATE CUT WAS NOT NEEDED IN IMMEDIATE FUTURE. HE SAID THAT SINCE BANK LENDING RATES HAVE BEEN DECLINING FOR THE PAST 30 MONTHS, A BANK RATE CUT WITHOUT REDUCTION IN DEPOSIT RATES WOULD BE DIFFICULT; BUT HE ADDED THAT CUT IN OFFICIAL DISCOUNT RATE AND IN DEPOSIT RATES MIGHT NOT HAVE TO BE SIMULTANEOUS.

5. DESPITE CONTINUED UNCERTAINTY ABOUT FUTURE MONETARY DEVELOPMENTS, THE PROVINCE OF MINITOBA, CANADA, HAS DECIDED TO PROCEED WITH ITS ISSUE OF YEN-DENOMINATED BONDS IN JAPAN THIS MONTH. ACCORDING TO NIKKO SECURITIES CO., UNDERWRITER UNCLASSIFIED

UNCLASSIFIED

PAGE 03 TOKYO 02255 01 OF 02 170646Z

FOR THE OFFERING, THIS YEN 12 BIL OF TEN-YEAR BONDS WILL CARRY AN 8.6 PERCENT COUPON RATE, 0.3 PERCENT BELOW THE RATE FOR REPUBLIC OF SINGAPORE BONDS ISSUED LAST DEC. SOME OBSERVERS SEE THE 8.6 PERCENT COUPON RATE OF MANITOBA BONDS AS ANOTHER INDICATION OF REDUCED COUPON RATES AHEAD FOR INDUSTRIAL BONDS. CURRENTLY AA-RATED TEN-YEAR BONDS OFFERED BY JAPANESE PRIVATE ENTERPRISES CARRY AN 8.9 PERCENT COUPON RATE.

6. ON THE REAL SIDE, JAPAN APPEARS TO HAVE BEEN GROWING AT ABOUT 2 PERCENT ANNUAL RATE IN THE FOURTH QUARTER OF LAST YEAR, ACCORDING TO REPORTS BASED ON DATA COMPILED THUS FAR BY EPA. PRELIMINARY ESTIMATE OF FOURTH QUARTER CY GNP, TO BE ANNOUNCED EARLY NEXT MONTH, IS LIKELY TO SHOW AN INCREASE OF AROUND 0.6 - 0.7 PERCENT. A FOURTH QUARTER INCREASE OF THE MAGNITUDE NOW INDICATED WOULD REQUIRE FIRST QUARTER CY 1977 GROWTH OF 1 3/4-2 PERCENT TO ACHIEVE THE JFY 76 TARGET OF 5.7 PERCENT REAL GROWTH.

7. WHOLESALE PRICES DIPPED 01. PERCENT IN JAN, THE FIRST
DECLINE IN 19 MONTHS (ALTHOUGH REIALL IT WAS EARLIER
REPORTED TOKYO RETAIL PRICES IN JAN REGISTERED A SHARP
1.1 PERCENT INCREASE: TOKYO 1582)). LOWER PRICES FOR
UNPROCESSED AGRICULTURAL PRODUCE AND MINING PRODUCTS
FIGURED IMPORTANTLY IN THE DECLINE. HOWEVER, WHOLESALE
PRICES FOR MANUFACTURED GOODS WERE UNCHANGED IN JAN, AND
HAVE NOW INCREASED BY ONLY 1 PERCENT OVER THE PAST SIX
MONTHS.

INDEX, N.S.A., 1970 EQUALS 100: PERCENT CHANGE FROM
PRIOR MONTH IN PAREN

	TOTAL (JEI 471)	MANUFACTURES
1976 OCT	2168.2 (0.1)	159.2 (0.1)
NOV	168.7 (0.3)	159.4 (0.1)

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 TOKYO 02255 02 OF 02 170654Z
ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 PRS-01 /111 W
-----170658Z 073826 /11

P R 170610Z FEB 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 5533
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL HONG KONG
USMISSION OECD PARIS

UNCLAS SECTION 2 OF 2 TOKYO 2255

8. LABOR MARKET CONDITIONS APPEARED TO IMPROVE SLIGHTLY
IN DEC, ALTHOUGH GOJ OFFICIALS HAVE BEEN CAUTIOUS
IN INTERPRETING THIS IMPROVEMENT. THE NUMBER
OF UNEMPLOYED DECLINED 8.4 PERCENT, FALLING BELOW MIL MARK
FOR FIRST TIME IN 18 MONTHS. DEC UNEMPLOYMENT RATE,
SEASONALLY ADJUSTED, FELL TO 1.8 PERCENT, THE FIRST TIME THIS
RATE HAS BEEN BELOW 2 PERCENT LEVEL SINCE MARCH 1976.
(NOTE: PRIME MINISTER'S OFFICE, USING DIFFERENT SEASONAL

FACTORS THAN EPA, REPORTED THAT DEC UNEMPLOYMENT RATE WAS 1.89 PERCENT). HOWEVER, JOB OFFERS/APPLICANTS RATIO AND INDEX OF OVERTIME HOURS WORKED IN MANUFACTURING RECORDED ONLY MODEST INCREASE FROM PRIOR MONTH. INDEX OF UNIT LABOR COSTS ROSE AND INDEX OF PRODUCTIVITY IN MACHINERY INDUSTRY DECLINED.

JEI NO.	SERIES (UNIT)	OCT	NOV	DEC
378	UNEMPLOYED (THOUSANDS)	1070	1070	980
379	UNEMPLOYMENT RATE JKPERCENT)	2.0	2.0	1.8

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 TOKYO 02255 02 OF 02 170654Z

385	JOB OFFERS/APPLICANT RATIO	0.64	0.62	0.63
401	MFG. OVERTIME(1970-100)	136.3	138.4	139.1

AUG SEP OCT

N/A LABOR PRODUCTIVITY MACH-

INERY (1970-100)	171.1	168.2	166.2
------------------	-------	-------	-------

JEI NO. 421, INDEX OF UNIT LABOR COST, HAS BEEN RE-ESTIMATED WITH NEW BASE YEAR, 1975-100; MONTHLY DATA FOR 1976 AS FOLLOWS:

JAN-JUNE: 101.2, 100.3, 98.0, 94.5, 95.5, 94.2

JUL-DEC 93.5, 95.9, 97.1, 98.2, 96.7, 97.8

NOTE: ALL SERIES ARE SEASONALLY ADJUSTED.

9. SOME LDP LEADERS HAVE PUBLICLY SIGNALLED THEIR WILLINGNESS TO CONSIDER OPPOSITION PARTY DEMANDS FOR AMENDING BUDGET. WITH ONLY A RELATIVELY SLIM MAJORITY IN THE DIET AND ONE VOTE DOWN IN THE BUDGET COMMITTEE, LDP LEADERS REPORTEDLY THINK THAT EARLY PASSAGE OF THE BUDGET, WHICH NOW CALLS FOR A YEN 350 BIL TAX REDUCTION, WILL BE DIFFICULT WITHOUT SOME COMPROMISE WITH OPPOSITION. PROPOSALS REPORTEDLY BEING CONSIDERED ARE TO FINANCE ADDITIONAL TAX CUTS EITHER BY REVISING THE BUDGET'S REVENUE ESTIMATED UPWARD BY YEN 200-300 BIL OR BY UTILIZING ABOUT YEN 200 BIL OF FUNDS NOW IN THE BUDGET'S YEN 350 BIL RESERVE. HOWEVER, FACT AND SHAPE OF COMPROMISE BY NO MEANS SETTLED MATTER. NEVERTHELESS, EXPECTATIONS SEEM TO BE GROWING THAT BUDGET CAN CLEAR LOWER HOUSE BY MID-MARCH, AND UPPER HOUSE (WHICH CANNOT BLOCK BUDGET) BY MID-APRIL, THUS REQUIRING ONLY BRIEF PERIOD OF OPERATION UNDER PROVISIONAL BUDGET.

10. IN ANOTHER MOVE CHARACTERIZED AS PART OF THE INTERNATIONALIZATION OF THE YEN, THE FINANCE MINISTRY IS REPORTEDLY CONSIDERING SERIOUSLY PROMOTING YEN-DENOMINATED EUROBOND ISSUES BY FOREIGN BORROWERS. AIM IS SAID TO BE TWOFOLD: TO MAKE THE YEN BETTER KNOWN INTERNATIONALLY; AND TO EXPAND THE OVERSEAS OPERATIONS OF JAPANESE SECURITIES HOUSES. IT IS REPORTED THAT THE FIRST ISSUE MAY COME AS EARLY AS

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 TOKYO 02255 02 OF 02 170654Z

THIS SUMMER. INTEREST HAS REPORTEDLY BEEN EXPRESSED BY EUROPEAN BORROWERS IN SUCH ISSUES; AND THE FINANCE MINISTRY BELIEVES THAT FOREIGN INTEREST OVER THE PAST YEAR OR SO IN BUYING YEN DENOMINATED SECURITIES IN JAPAN CAN BE INTERPRETED AS EVIDENCE OF INVESTOR INTEREST IN SUCH ISSUES. NO PARTICULARLY SIGNIFICANT OR CLEAR-CUT IMPLICATIONS FOR JAPAN'S BALANCE OF PAYMENTS ARE SEEN, SINCE IT IS ASSUMED THAT INVESTORS WOULD HAVE TO CONVERT FOREX TO OBTAIN YEN TO PURCHASE ISSUES; AND BORROWERS PRESUMABLY WOULD CONVERT MOST YEN PROCEEDS BACK INTO OTHER FOREIGN CURRENCIES.

1. NEW AUTO REGISTRATIONS, SEASONALLY ADJUSTED, INCREASED 3 PERCENT IN JAN. ALTHOUGH REGISTRATION FIGURE DID NOT COMPLETELY RECOUP DEC 76 DECLINE, JAN AUTO REGISTRATIONS WERE ALMOST EXACTLY SAME AS 76 MONTHLY AVERAGE PER

THOUSAND CARS.

THOUSAND CARS, S.A. PCT CHANGE FROM PRIOR MO.

1976-NOV	222.5	21.0
DEC	196.7	MIN 11.6
1977-JAN	203.0	3.2

SHOESMITH

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, FINANCIAL TRENDS, DEVALUATIONS, FOREIGN EXCHANGE RATES, YEN (CURRENCY)
Control Number: n/a
Copy: SINGLE
Sent Date: 17-Feb-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TOKYO02255
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770056-0666
Format: TEL
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770229/aaaabaeb.tel
Line Count: 249
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 1baeffc4-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 26-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3287768
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL AND ECONOMIC DEVELOPMENTS -- FEB 10-16
TAGS: EFIN, JA
To: STATE TRSY
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/1baeffc4-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009